Chapter 1: Business Activity

Factors of production:

- Land: covers all of the natural resources provided by nature, and it includes fields and forests.
- Labour: number of people available to make the products,
- Capital: the finance machinery and equipment needed to manufacture the goods.
- Enterprise: the skill and risk-taking ability a person possesses that bring together the other three factors to create a product and business. This person is known as an entrepreneur.

The economic problem is the shortage or scarcity of goods and services, which is caused by there not being enough factors of production.

Unlimited wants + limited supply = scarcity

When resources are limited, choices need to be made for what resources are used for what wants. Opportunity cost is the next best alternative that we give up by choosing another item. For example, in choosing between a blue pen or a black pen, choosing the black pen makes the blue pen the opportunity cost.

Since resources are limited, specialisation becomes a large part of production since it helps use resources as efficiently as possible. Specialisation has become very common now since specialised technology and machinery are widely available, increasing competition calls for businesses to keep costs as low as possible and since most people have recognised that being specialised leads to higher living standards.

Division of labour has advantages and disadvantages. Division of labour increases efficiency and output since workers are specialised in that particular task. It also means workers waste less time moving from one workbench to another and is quicker and cheaper for the company since workers need fewer skills to be taught. However, workers may find the job monotonous and get bored, and if one worker is absent and no one else can do their job, production may need to be stopped.

A business is a form of commercial activity that combines the factors of production to make products (goods and services) that satisfy people's wants.

Added value is the difference between the selling price of a product and the cost of the bought-in materials and components. Without added value, other costs within the business can't be paid for and no profit will be made. It is important because sales revenue is greater than the cost of the business brought in, which lets the business pay for other costs such as labour, management and advertising and lets the business gain a profit which leads to expansion and better quality.

A business can increase their added value by increasing the selling price while keeping the cost price the same. If the business creates an image of their product being of higher value through advertising and imaging, they can convince consumers to pay higher prices for the same quality of product. However, adding value via advertising and imaging can increase costs for the company. Another way is for the business to reduce the cost of its materials and keep its selling prices the same. However, using cheap products may reduce quality and customers may not want to pay the same price for a low-quality product.

Chapter 2: Classification of businesses

The primary sector of industry extracts and uses the natural resources of Earth to produce raw materials used by other businesses. E.g., woodcutter

The secondary sector of industry manufactures goods using the raw materials provided by the primary sector. E.g., furniture maker

The tertiary sector of industry provides services to consumers and the other sectors of industry. E.g., retailer

The importance of the economic sectors comes from an individual country's percentage of a country's total number of workers employed in each sector or through the value of output of goods and services and the proportion this is of total national output. Countries with a more important primary sector tend to be developing countries. Developed countries would have more prominent secondary and tertiary sectors.

In some developed countries, there has been a decline in the importance of the secondary sector. The decline in the secondary sector is called de-industrialisation. Additionally, the importance of the secondary (and tertiary) sector has increased in developing countries. The reasons for change in importance for the economic sectors are a) natural resources of countries may get depleted, b) that most developed countries are gaining competition in manufacturing with the rise of newly industrialised developing countries, and c) that as wealth increases and living standards increase, consumers spend more money on services like travel, which is in the tertiary sector.

A mixed economy has both a private and a public sector.

Private sectors contain businesses that are not owned by the government. They make decisions about their businesses, mostly without government intervention. Most likely aiming to make profit.

Public sectors contain government or state-owned businesses, controlled businesses and organisations. Either the government or a public sector authority makes decisions about the business. The money to fuel these businesses come from the taxpayers. Health, education, defence, public transport, water supply and electricity supply.

The balance between the two sectors has been achieved over the years by governments selling public sector business to private individuals or groups and making them a part of the private sector. This is known as privatisation. This is done because private sector business is usually more successful because the owners put in more capital, the main objective is profit and because competition allows for motivation to create better quality products. A private sector is less likely to focus on social objectives.

Chapter 3: Enterprises, business growth and size

An entrepreneur is a person who organises, operates and takes the risk for a new business venture. Advantages include independence, using your own ideas, fame and success, profit and high income, and the ability of making use of personal skills and interests. Disadvantages include the risk, the personal capital being used, the lack of experience of the business world and opportunity cost of another job's income.

Characteristics of successful entrepreneurs include being hardworking, a risk taker, creative, optimistic, self-confident, innovative, independent and an effective communicator.

A good business plan includes a description of the business, the products and services, the market the business is targeting, the business location and how they will reach out to customers, organisation structure and management, financial information and business strategy. Without a business plan, it'll be hard to find investors or get loans from banks.

Governments support business start ups because a new business reduces unemployment, increases competition, increases output, benefits society and can grow further into a large business.

They support business by training entrepreneurs, providing low-cost premises to start up businesses, loans and grants for either small business at low interest rates or if businesses start up in unemployed areas, grants to train employees, and research if required.

Business size can be measured through the number of people employed, the value of output, the value of sales, and the value of capital employed. They should be measured so investors, governments, competitors, workers and banks get an idea of the success of the business.

Capital employed is the total value of capital used in the business.

Number of people employed is easy to calculate and compare but different businesses use/need different numbers of employees so it isn't always accurate.

Value of output is common but output is affected by the product, employees, capital, etc, so it isn't always accurate.

Value of sales is usually used in the retail industry but it could be misleading since products vary.

Value of capital employed can be inaccurate as the amount of capital need changes.

Businesses may want to expand for larger profits, more status and prestige, lower average costs, and a larger market share. Through internal growth, a business can expand its existing operations. Through external growth, a business could merge with or take over another business.

External growth can be split into horizontal and vertical integration.

Horizontal integration is when one business takes over another business that is in the same industry in the same stage of production. A merger reduces the number of competitors, there are opportunities for economies of scale and the combined business will have a bigger share of the total market than either business before integration.

Vertical integration is when one business mergers with or takes over another in the same industry but at a different stage of production.

It is forward vertical integration when the business is integrated with another business that is at a later stage of production. This is beneficial because an assured outlet is procured by the merger, the profit margin made by the retailer is absorbed, the retailer can be prevented from selling competing models of the product and more information about the consumers needs can be brought in by the manufacturer.

It is backward vertical integration when the business is integrated with another business that is at an earlier stage of production. This is beneficial because it gives an assured supply of important components, the profit margin for the supplier is absorbed by the expanded business, the supplier could be prevented from supplying other businesses and the costs of components and supplies for the manufacturer could be controlled.

Conglomerate integration is when one business merges with or takes over a business in a completely different industry. It is also known as diversification. Benefits include the business expanding to new industries (risk of failure in the original) and there might be a transfer of ideas between sections of the business even though they are in different industries (for example, an insurance agency advertising itself after taking over an advertising agency.)

Expansion can cause problems as well. Larger businesses are harder to control, poor or miscommunication is a risk, expansion is financially draining, and it is more difficult than expected. This can be solved by operating the business in smaller units, expanding the business slowly and introducing new management styles.

Some businesses choose to remain small, possibly because of the type of industry it is in (like hairdressing), the market size (the total number of customers is small) and the owner’s objectives.

Businesses can fail if management lacks skills, the business environment changes, if financial management is poor or if the business over- expands.

New businesses have a higher chance of failing due to lack of finance and resources, poor planning, and inadequate research or experience.

Chapter 4: Types of business organisation

- **Sole Traders:** Sole trader is a business owned by one person. It is operated by the sole proprietor. It is mainly for people that are setting up new businesses, don't need much capital to start the business or for those mainly dealing with the public.

Advantages:
  - Few legal regulations to follow
  - Control over your own business
  - Freedom to choose holidays, etc. (may not apply in certain cases)
  - Close contact with customers, builds relationships
  - Can keep all the profits
  - Can have complete secrecy in business matters (other than what the tax office needs to know)

Disadvantages:
  - No one to discuss business matters with
  - No limited liability and can be held responsible for all business problems
  - Not enough capital since capital can only come from bank loans and personal assets
  - Business can't be passed on, when the owner dies, the business dies with them.

- **Partnerships:** partnership is a form of business in which two or ore people agree to jointly own a business. It is recommended that partners have a partnership agreement which is a written and legal agreement between the business partners. Limit for the number of partners in a partnership is approximately 20-100.

Advantages:
  - More capital invested because there are multiple people
  - Responsibilities of running the business are shared
  - Both would benefit from the profits of the business
  - Specialisation and can distribute work evenly
  - Employees are more motivated because they can be promoted to a partner-level after a certain amount of experience

Disadvantages:
  - No limited liability. If the business fails the debts still have to be paid.
  - No separate legal identity. If one partner died, the partnership would end
  - Conflict between partners is common
  - Growth is limited to the amount of capital
  - It takes more time to make decisions since all partners need to be consulted and the business may lose good opportunities

- **Limited Liability Partnerships:** A limited liability partnership or LLP is a partnership wherein some or all partners involved in the business have limited liabilities. Essentially, the liability of the partners is limited to their agreed-upon contribution to the partnership and business. Shares in the LLP business can't be bought and sold.

- **Private limited companies:** Private limited companies are businesses owned by shareholders, but they cannot sell shares to the public.

Advantages:
  - Shares can be sold to a large number of people that usually consist of the owner's friends and family
  - All shareholders have limited liability.
  - People who started the business can control it as long as they have the majority shares

Disadvantages:
  - Significant legal matters
  - Shares can't be sold or transferred without the agreement of all other shareholders
  - Accounts of a company are not as secret as that of sole traders and partners
  - If the business is expanding rapidly, shares can't be offered to the general public.

- **Public limited companies:** Public limited companies are businesses owned by shareholders, but they can sell their shares to the public and their shares are tradable on the Stock Exchange. They are not a part of the public sector.

Advantages:
  - Offers limited liability
  - Separate legal identity for the owners and shareholders
  - Very large capital sums due to multiple investors
  - No restriction of buying, selling and transferring shares.
  - Easier to achieve a high status.

Disadvantages:
  - Multiple legal formalities
  - Many regulations and controls in place
  - Selling shares to the public is expensive since owners may need help to sell shares.
  - Owners may lose control is other shareholders own more of the business than they do

In large companies with millions of investors, all can't be involved in decision making for the business. So, an Annual General Meeting is held where all the shareholders vote for a Board of Directors who make decisions for the company. The Board may also appoint managers who will take day to day decisions for the business.

- **Franchising:** A franchise is a business based upon the use of brand names, promotional logos and trading methods of an existing successful business. The franchisee buys the licence to operate this business from the franchisor.

Advantages to the franchisee:
  - Lower chances of business failure

    - Franchisor pays for advertising
    - All supplies come from the franchisor
    - Fewer decisions to make
    - Training is provided by the franchisor
    - Banks are usually willing to loan money

Disadvantages to the franchisee:

    - Less independence
    - Can’t change the business to suit the area, etc.
    - Have to pay a licence fee.

Advantages to the franchisor:

    - Expansion is faster
    - Management of the outlets is the responsibility of the franchisee
    - All products must be sold by the franchisor
    - Disadvantages to the franchisor:
    - Poor management from the franchisee can hurt the brand
    - Franchisee keeps the profits

- **Joint ventures:** A joint venture is where two or more businesses start a new project together, sharing capital, risks and profits.

Advantages:

    - Sharing of costs
    - Broader knowledge from both businesses
    - Shared risks

Disadvantages:

    - Profits have to be shared
    - Conflict can occur

- Public Corporations: A public corporation is a business in the public sector that is owned and controlled by the government or state.

Advantages:

    - Important industries can be controlled by the government
    - It would be wasteful to have competition if it was in the private sector
    - Government can make sure the business is succeeding
    - Important public services can be protected

Disadvantages:

    - No private shareholders to insist on high profits and efficiency
    - Govt. subsidies can lead to inefficiency
    - No motivation to increase product value since there is no competition
    - Can be abused by the government for political reasons

Chapter 5: Business objectives and stakeholder objectives

Business objectives are important because they give employees a clear target. They help guide decision making and unit the business to one path. Success of a business can be compared to its objectives.

Survival: Business survival is usually the goal when the business has just started or when the economy is moving into recession.

Profit: Businesses aim to make a profit so they can pay a return to the owners for the capital invested and the risk taken and provide finance for further investment in the business. If there is no profit, the business is most likely to close.

Return to shareholders: They can be increased in two ways. Through increasing the profit and the share of profits paid to shareholders as dividends and by increasing the share price.

Growth: By expanding and growing the business, jobs become more secure, employees are paid more, new possibilities and risks can be taken, higher market share can be obtained and cost advantages can be obtained.

Market share: Market share is the percentage of the total market sales held by one brand or business. Increased market share gives a business good publicity, increased influence over suppliers and increased influence over customers. Formula for market share % = (company sales/ total market sales) x 100

Objectives of social enterprises:

A social enterprise has social objectives as an aim to make profit and invest it back into the business.

Social- to provide jobs and support for disadvantaged people

Environmental- to protect the environment

Financial- to make a profit to invest it back into the social enterprise.

Business objectives can change if the business is no longer in survival mode, the business has achieved a higher market share or if there is an economic recession.

Stakeholder group	Main features	Objectives (most likely)
Owners (internal)	Invest capital Risk takers Share profits	Make profits Grow the business
Workers (internal)	Employees	Job security

	Follow instructions	Payment
Managers (internal)	Important decisions Employees	High salaries Job security Growth
Customers (external)	Buy the products	Good products Value for money
Government (external)	Responsible for the economy	Successful business
Community (external)	Jobs and product effect	Jobs for the working population
Banks (external)	Provide finance	Pay interest

Public sector business objectives:

- Financial- meet profit targets
- Service- provide a public service
- Social- Protect or create employment

Chapter 6: Motivating employees

Employees work for money, security, social affiliation, esteem and self-importance, and job satisfaction.

A well motivated workforce leads to a high productivity level, a higher output per worker, a higher willingness to adaptability of employees, a pathway for two way communication, a lower labour turnover and low rates of absenteeism and strike actions.

Maslow's theory states that an employee will no longer be motivated once they have achieved a level of the hierarchy. For example, if one has their basic safety needs, it would no longer motivate them further. However, attempting to gain the respect of their friends and colleagues would be the next level.

FW Taylor believed that labourers worked as machines, motivated by money. At the factory he worked at, he provided bonuses to the workers that reached the target amount of output. While this provided significant success to his factory, his theory was criticised for being too simplistic as there are other things that may motivate and demotivate workers.

Herzberg believed that human needs are divided into motivators and hygiene factors. Herzberg believed the hygiene factors must be satisfied and if they weren't, they would act as demotivators. They don't work as motivators however, only as basic needs.

Methods of motivations:

1. Wages- a weekly payment. Workers are paid more often and get overtime, however, it takes time and money to calculate weekly wages and someone may need to be employed to do so.
    a. Time rate- the amount paid to an employee based on how long they work. It is much easier to calculate this way, however there is no way to determine if the worker is working and working well, and a system will be required.
    b. Piece rate- the amount paid for output produced. It encourages workers to work faster to produce more goods, however, it may not be good quality, and things like machinery breaking down will affect their wages.
2. Salaries- paid monthly. It is easier to calculate since it is an amount of money in a year divided by 12, however, there is no payment for overtime.
3. Bonuses- It motivates employees and makes them feel recognised, however, not getting one may be a demotivator and cause conflict between employees.
4. Commission- payment based on sales. This would increase sales and encourage employees to sell more, however, it could lead to only short term spikes in sales, it could stress out the staff and cause competition.
5. Profit sharing- dividing the profits as a bonus. All employees would benefit from hard work and it is fair in industries where contribution is difficult to calculate, however, low profits would lead to no sharing, and higher paid workers would receive a higher share since it is calculated by percentage.
6. Fringe benefits- benefits given to employees.

Methods of motivation- non financially:

1. Job rotation- workers swapping tasks. It breaks monotony, but the work may not be interesting.

2. Job enrichment- adding tasks and giving more responsibilities. It increases the workers commitment and increases productivity via their satisfaction.
3. Teamwork- giving a group tasks to do together. The workers become more involved and take control.
4. Training- motivation from gaining knowledge.
5. Promotion- Employees feel recognised and it is a lower cost for the business than hiring from outside.

Chapter 7: Organisation and management

An organisational structure refers to the level of management and the division of responsibilities within an organisation.

Organisational charts are advantageous because they show how everyone is linked together in an organisation. Everyone can see their position in the organisation and it gives everyone a sense of belonging.

The chain of command is the structure in an organisation which allows instructions to be passed down from senior management to lower levels of management.

The span of control is the number of subordinates working directly under a manager.

Advantages of having short chains of command include:

- Faster communication
- Top managers are more in touch with lower-level employees
- Span of control is wider which means managers will delegate more and there will be less direct control of each worker.

Functions of management:

1. Planning: for the business's future aims and targets, as well as strategies.
2. Organising: to organise people and resources efficiently
3. Coordinating: Coordination between workers and departments
4. Commanding: giving instructions, targets and deadlines, as well as guidance
5. Controlling: Measuring and evaluating employee's work in case changes need to be made.

Autocratic leadership is where the manager expects to be in charge of the business and have their orders followed. This allows for quick decision making and efficiency, however, the employees aren't as involved and this can be demotivating.

Democratic leadership gets other employees involved in the decision-making process. This is good because better decisions can be made which will result in business success and motivate the employees. However, it may not benefit the company's efficiency.

Laissez-faire leadership makes broad objectives of the business known to employees but then they are left to make their own decisions and organise their own work. This encourages employees to show creativity and responsibility but it is possible that something may be done wrong.

Different situations require different styles of leadership.

A trade union is a group of employees who have joined together to ensure that their interests are protected. A fee must be paid to join a trade union. Once an annual subscription is obtained, benefits include strength in numbers when negotiating, improved conditions of employment, improved environment, improved benefits to members who are not working, improved job satisfaction, advice and/or financial support, and privileges. However, it costs money to be a member and workers may need to take industrial action even if they don't agree. For the employers, trade unions help communication between management and workers and makes negotiating wage agreements easier. However, strikes can be organised and high wages can be asked for.

Hierarchy refers to the levels of management in any organisation, from the highest to the lowest.

Directors are senior managers who lead a particular department or division of a business.

Line managers have direct responsibility for the people below them in the hierarchy of an organisation.

Supervisors are junior managers who have direct control over the employees below them in the organisational structure.

Staff managers are specialists who provide support, information and assistance to line managers.

A closed shop is when all employees must be a member of the same trade union.

Chapter 8: Recruitment, selection and training of employees

Job analysis identifies and records the responsibilities and tasks relating to a job. Job description outlines the responsibilities and duties to be carried out by someone employed to do a specific job. Job specification is a document which outlines the requirements, qualifications, etc. for a specific job.

Internal recruitment is when someone fills a position from within the organisation. It is faster and cheaper for the business, the person is already known to the business and knows how the organisation works and it is a motivating factor. However, no new experience is entering, there could be rivalry and someone internally may not be fit for the job.

External recruitment is when someone fills a position from outside the organisation. Advertising for this can be done via newspapers, magazines, sites, agencies and job centres.

Part time employees work under 35 hours a week. It is more flexible, easier to shift timings, easier to extend operating hours, reduces business costs, and makes time for other obligations. However, most likely temporary thus no loyalty, less likely to be promoted, more difficult to communicate with.

Methods of training:

1. Induction training- giving employees an introduction. It helps them settle quickly, and means they will be more prepared. However, it is time consuming, being paid for no work, delays the employee starting work.
2. On the job training- learning by watching other employees. It ensures work is being done, it costs less than off the job, tailored to business needs. However, the trainer wouldn't be as productive, and qualifications learned may not be useful to other businesses.
3. Off the job training- being trained outside the workplace. A broad range of up to date skills are taught, no money loss for the business. However, costs are high, wages are paid but no work is being done, qualifications mean the employee could find a better job somewhere else.

Dismissal is when an employee is fired for going against their contract of employment. Redundancy is when an employee is no longer needed by the business, not due to unsatisfactory work.

A contract of employment is a legal agreement between employer and employee, listing the rights and responsibilities of the workers.

Chapter 9: Internal and external communication

Internal communication is between members of the same organisation.

External communication is between the organisation and other organisations or individuals. It is very important to the image and efficiency of a business.

The process of effective communication:

1. The transmitter or sender of the message is the person starting off the process by sending a message.

2. The medium of communication is the method used to send the message.
3. The receiver is the person who receives the message.
4. Feedback is where the receiver confirms that the message has been understood.

One-way communication involves a message which does not call for or require a response. While this is good for efficiency, it can easily lead to miscommunication.

Two-way communication is when the receiver gives a response to the message and there is a discussion about it. This may be time consuming but it makes sure there is no miscommunication. Additionally, both parties feel more involved in the communication process.

Choosing a method of communication depends on speed, cost, message details, leadership style, the receiver, the importance of a written record and the importance of feedback.

Verbal communication can be good because it is efficient, there is opportunity for feedback and it is reinforced by seeing the speaker. However, maybe someone isn’t paying attention, may take longer, and there is no record of the conversation.

Written communication can be good because there is evidence, details can be checked again, can be copied and sent to others, and electronic communication is quick and cheap. However, direct feedback is not always possible, hard to check if message was received and the language may confuse people.

Visual communication can present information in an appealing way, and allows people the visualise the task. However, there is no feedback and some things may be misinterpreted.

Formal communication is when messages are sent through established channels using professional language.

Informal communication is when information is sent and received casually using everyday language.

Communication barriers are factors that stop effective communication

Chapter 10: Marketing, competition and the customer

Businesses do research in order to find out how many people want their product. If there is a small market for their product a lot of money could be wasted on developing the product which could lead to the businesses demise.

The idea of market research is to find out the following things:

- Would a customer buy my product?
- What price would a customer be willing to pay for my product?
- Where would they most likely buy the product from?

- What features of the product would the customer like/dislike about my product?
- What type of customer would buy my product?
- What type of promotion would be effective for my product?
    - This can include positioning the product strategically or using slogans and appealing language with appropriate design to cater to the audience.
- Who and how strong is the competition for my product?

Consumer spending patterns change due to taste changes, changes in technology, changes in incomes and ageing populations.

Businesses can maintain good customer relationships, improve their existing products, bring out new products to keep interest and keep costs low to maintain competitiveness to respond to changing spending patterns.

The mass market is where the majority of products are introduced and sold. The niche market is a small, usually specialised, segment of a much larger market where things are sold at a traditionally higher cost.

Market segments are identifiable groups of consumers with similar tastes or situations within a market. They can be identified by socio-economic group, by age, by location, by gender, by use of product or by lifestyle.

Chapter 11: Market research

Role of market research:

Pre-hand market research or market oriented products is vital for certain products. It gives the business an idea of what the customer wants and needs from them and helps them produce and advertise their product accordingly.

Market research is based on the general customer's opinion. If the business was to follow their suggestions the general public of customers would be satisfied with the product the business has produced.

Market research also helps a business compare itself to its competitors. If the business is aware of the steps their competitors are taking they could change their product accordingly swaying the customers to buy their products and not the other way around. It helps businesses identify problems and opportunities that may occur in the future.

Market research helps a business stay ahead of the competition and be ready for any situation. Without market research a lot of money could be wasted developing a product.

Types of market research:

Primary research: Primary research involves direct contact with potential or existing customers. It is also known as field research and is the collection of original data.

Advantages and disadvantages of primary research:

The research is up to date and relevant to the business, and it is usually planned by the people who want to use the data. It is first-hand information and it is most effective when used to gather information which can help the business with certain problems like for example to test the market to see if a product is likely to succeed or not. It benefits the business since the data is not available to other businesses (unless they obtain the data themselves).

However, it can be very expensive for a business to conduct the means necessary to obtain this information, like conducting surveys or focus groups. It also takes time to obtain, collect and analyse the data which can slow down the efficiency of the business.

Process of primary research:

To undertake primary research a business must go through several stages in order to reach a result on their product.

1. What is the purpose of the market research: what does the business want to find out? What information does the business want? What action will be taken as a result of the research?

Decide on the most suitable method of research: Will more than one method be necessary? The cost of the research and the time required.

2. Decide on the size of the sample needed and who is going to be asked: How big will the sample be to keep costs down but to get sufficient results? Which different groups of people will need to be included in the survey? Different age and income groups?
3. Carry out the research
4. Collate the data and analyse the results: The information will be collected and the data processed. What will it show?
5. Produce a report of the findings: A report will be produced showing the results. There will be a summary of the research findings and a summary of the results. Recommendations will be made as to what actions will be taken based on the results.

Types of primary research:

Questionnaires: Questionnaires form most of the primary research. They may be conducted face-to-face, By telephone, post or the internet. Deciding what questions to ask is hard if you want accurate results. Some questions may not be clear, some may be direct. Some may get the responder to answer with a simple yes or no but the “open” questions will have a more detailed answer. The researcher also needs to decide who to ask.

Detailed qualitative research can be obtained about the product along with customers' opinions about the product being obtained. They can be carried out online, which is more efficient for the business, and prize pools can be opened to encourage people to fill out the questionnaire. If the questions are not well thought out answers can be misleading and inaccurate which would negatively impact the business. Carrying out questionnaires can take a lot of money, and collating and analysing all the information can also take a lot of time.

Online surveys: Online surveys can be carried out through the internet with the use of specialised websites. These surveys can be answered using any device connected to the internet, like computers and mobile phones. Researchers can design their own surveys and post them on the internet. To increase the number of responses, the researcher can spread the word about the survey through emails, social media, calls, etc.

Online surveys are very efficient since responses are given faster. Respondents have to put in less effort to complete the survey, and the data collected through the survey can be easily analysed quickly using IT tools. It is also easier for the business since it is cheap and cost effective. However, since interviewers aren’t directly involved while respondents are answering the questions, they can’t ask for further information or explain certain open-ended questions, which can lead to confusion and errors in data. There is also a scope for fraud since respondents may complete the survey carelessly or without honesty. Potential respondents without access to the internet won’t be able to participate.

Interviews: When interviews are used, the interviewer will have pre prepared questions for the interviewee. The interviewer can explain any question the interviewee does not understand, and details can be gathered about their opinions on the product in front of the interviewee. The interviewer could lead the interviewee into answering a question in a certain way which would tamper with the actual results. They are also very time consuming to carry out and, therefore, they are often an expensive way of gathering information.

Focus groups: This is where groups of people agree to provide information through a discussion with the researcher. They may discuss a particular product or their reaction to an advertisement

campaign. This could help the business make future marketing decisions. They may also test new products and then give their feedback, explaining what they liked and disliked.
They provide detailed information about consumers' tastes and preferences. And interaction between the members of the group can help the business understand the reasons for people's opinions. They are also quicker and cheaper than individual interviews.
However, they can be time consuming and expensive if conducted by a specialist market research agency. The discussion can be biased if some people on the panel are influenced by other people. It can also be dominated by just a few people so the conductor must be experienced to deal with this.

Secondary research: Secondary research is the collation and use of data that has already been collected by someone else.
It is of much less cost to the business, and often supplies information that could not have been obtained through primary research such as the population of the market the product could be useful to. It might help assess when a recession is coming or when sales of a certain product may increase, and it is much more efficient than primary research.
However, the data collected may be out of date or completely relevant to the business using it. It is also available to all businesses, which means competitors also have access and doesn’t give the business itself any advantages.

The use of internal sources of secondary data involves a business using its own sales records, customer records, pricing data, sales reports, etc. The business uses data readily available to it from its past to understand trends in customer demands and sales. While there is a chance of this data being outdated, it is much cheaper for the business.
The use of external sources of secondary data involves a business using data obtained by those outside the business. These include government statistics, newspapers, market research agencies and online sources. The business determines which of these to take information from based on the product and what the business is hoping to achieve.

Product oriented and market oriented businesses:
Some businesses produce the product first then research the market. This is known as being product oriented. Today this approach is uncommon. A product oriented business usually provides daily necessities required for living. These products may not have a brand name per se but they are general products customers have to buy. The producers are mainly concerned with the price and quality of the product. Using this method is risky and could result in low demand for the product and a loss of capital. A market oriented product is when the business surveys the market's comfort levels with their product and then creates the product. It requires something called a market budget. Each business must identify the needs and wants of the

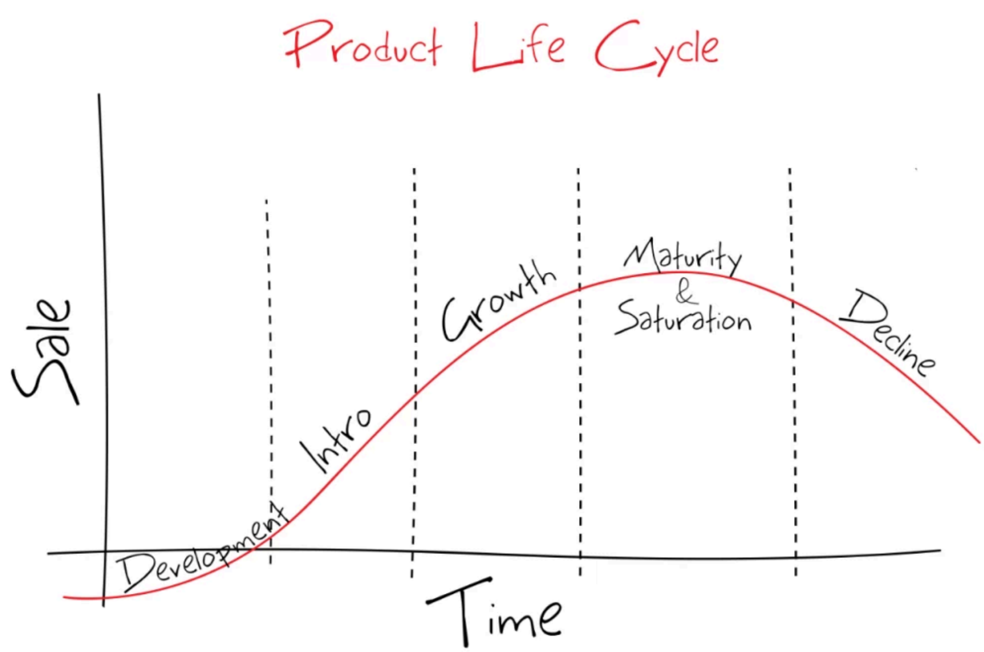
customers of now and in the future to determine which way they should take their business. With the knowledge of customer demands they can take advantage of new market opportunities which may arise. When customer needs have been identified new products are launched with more confidence.

Chapter 12: The marketing mix: product

Products can be either consumer goods, consumer services, producer goods or producer services.
Products require unique selling points to differentiate them from others and increase their demand and value.
Demand and value can also be increased by brand image. Having a unique and famous brand name leads to a higher value applied to the product by association, thus increasing brand loyalty and brand image. Things like packaging and aesthetic appeal also add to this.

The product life cycle:

1. A product is developed. It is tested and market research is done.
2. It is introduced. Sales grow as customers become aware of its existence.
3. Sales grow rapidly. Advertising and other promotional methods are used.
4. Maturity. Sales increase slowly. Competition increases and pricing strategies are used most.
5. Sales reach a saturation point and stabilise. Competitors remain.
6. Product sales decline and eventually it is removed from the market.



Using pricing and promotional strategies, the product life cycle can be extended. After reaching its maturity or saturation stage, the business may change things to continue the product's life. They could introduce new variations of it, sell it to new markets, make changes in the packaging design, use a new advertising campaign, and sell through new retailers.

Chapter 13: The marketing mix: price

Methods of pricing:

1. Cost plus pricing: It is when the price is the cost of manufacturing plus a profit mark-up. It is easy to apply, flexible to different markets, and every product earns a profit. However, sales could be lost if prices are too high, and there is no incentive to reduce costs.
2. Competitive pricing: It is when a product is priced in line or just below competitors prices to try to take over more of the market. It would increase sales, avoid price competition, and can be used when consumers find it hard to tell the difference between products. However, it could lead to losses if the product is high quality being sold for less and research for the pricing takes time and money.
3. Penetration pricing: It is when the price is set lower than the competitors when entering a new market. It creates an impact with new customers, ensures sales are made and builds up market share. However, profit per unit may be low, customers may reject the product if the price is ever increased, and it wouldn’t be appropriate for a branded product.
4. Price skimming: It is when a high price is set for a new product in the market. It helps establish the product as high quality, it is easier to cover costs and it can lead to a high profit before competitors enter the market.
5. Promotional pricing: It is when a product is sold at a very low price for a short period of time. It gets rid of unwanted inventory and can help renew interest in the product. However, the revenue will be lower and it could start a price competition with competitors.
6. Dynamic pricing: When a business changes prices based on demand or availability.

Price elastic demand is where consumers are very sensitive to changes in price, switching to substitutes if they are available.
Price inelastic demand is where consumers are not sensitive to changes in price, and will pay higher amounts for the product or service.

Chapter 14: The marketing mix: place

A distribution channel is the means by which a product is passed from the place of production to the customer.

1. Directly to consumers: Products are sent directly from manufacturers to consumers. It is sold at a lower price through mail or catalogue for products such as food from farms. However, it may be impractical for larger businesses to manage, it may take longer if factories are far and it can be expensive to send products by post. Products could also go bad during this time.
2. Through a retailer: Producers sell products to retailers that sell to customers. It is sold in large quantities and reduces distribution costs compared to 1. However, there is no direct contact with customers and the price is usually marked up as the retailer has to make a profit as well.
3. Through a wholesaler and retailer: Producers sell to wholesalers in bulk, who supply to retailers that sell to consumers. The retailers save storage space and costs, retailers can purchase fresh products, wholesalers may sell to retailers on credit, wholesalers may deliver thus saving transport costs and wholesalers can give advice on what is selling well. However, it may be more expensive for smaller retailers, it would take longer for products to reach customers, and the consumer price is likely to be high as they all need to make a profit.
4. Through an agent, wholesaler and retailer: Agents sell products on behalf of the manufacturer. They can give manufacturers advice as they are aware of the local conditions, but the producer will have less control over the way the products are sold.

Chapter 15: The marketing mix: promotion

Promotion is where marketing activities aim to raise customer awareness of a product or brand to generate sales and create brand loyalty.

Advertising can either be informative or persuasive. It is paid for communication with potential customers about a product or service to encourage them to buy it.
An advertising budget is set after objectives are finalised, and then an ad campaign is created. The media is selected and then effectiveness is evaluated.

The target audience is a group of people who are potential customers of a product or service.

Examples of advertising media are televisions (large audience but expensive), radios (cheap but not a visual message), newspapers (large audience but not the younger generation), magazines (niche audience but aren’t published as frequently), billboards (permanent but don’t have detailed info), cinema (visual image but limited audience), leaflets (cheap but may annoy customers), internet (many details but competition) and merchandise (cheap but not seen by target audience).

Sales promotions are incentives such as special offers or deals aimed at consumers to achieve a short-term increase in sales. Examples include after sales service with expensive (usually electronic) products, gifts like in cereals, BOGOF, price reductions, competitions, point-of-sale product displays, free samples, and product placement. It promotes sales, encourages new customers, promotes new products, increases loyalty and turns customers away from competitors.

A marketing budget is a financial plan for the marketing of a product or product range for a specified period of time. Controlling a marketing budget leads to cost effectiveness and a calculated amount being spent to avoid bankruptcy.

Sponsorship by famous individuals can also be used.

Chapter 16: Technology and the marketing mix

If a company is using social media to advertise, it is beneficial since it attracts the specific target market, increases responses, and is cheap to use. However, it can alienate customers, and advertising is expensive. If it is using its own website, there is no extra cost, it can control its advertising, it can be interactive and change frequently. However, design costs are high and customers may not find the website without social media marketing.
E-commerce is the online buying and selling of goods and services using computer systems and applications.
To a business, e-commerce is beneficial since products and services can be promoted worldwide, orders can be taken online, consumers are likely to buy more, it is easier to purchase from another business, and it makes dynamic pricing and sales easier. However, there is a lot of competition, website design is expensive, transportation costs, no face to face contact, and storage costs for inventory.
To a customer, it is beneficial since it is online, comparing products and prices is easier, payment by card is easy, can access products from other countries, and it is easy to find cheaper alternatives. However, computer systems could fail, you may not receive what you see online, and there is a risk of theft or identity fraud.

Chapter 17: Marketing strategy

A marketing strategy is a plan to combine the right combination of the four elements of the marketing mix to achieve particular marketing objectives.

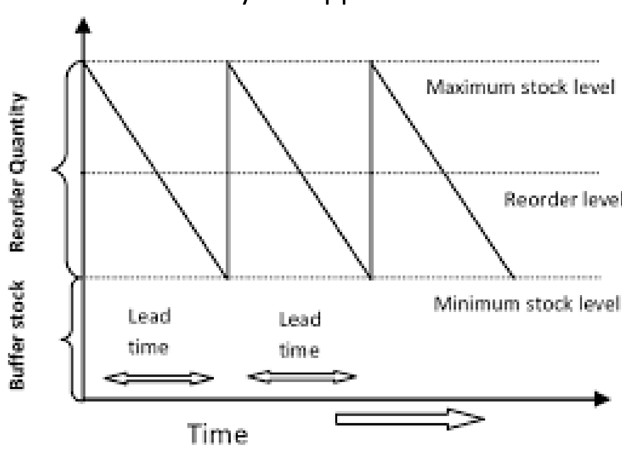
There are many laws protecting consumers.

Growth potential of new markets in other countries:
Opportunities for growth in a new market are high since there is a new customer base. However, there is a lack of knowledge about the new market and there are cultural differences in place. Restrictions for importing and exchange rates, and increased transportation costs also play a role.
Taking part in a joint venture, providing licensing to locals, franchising to locals internationally, and localising existing brands are all good ways to overcome this.

Chapter 18: Production of goods and services

The role of the operations department is to take inputs and change them into outputs for customer use. This includes the provision of raw materials and to see it through to final products.
Productivity is the output measured against the inputs used to create it. It can be written by the formulas below. Increasing productivity reduces inputs needed for output levels, lower costs per unit, fewer employees but higher wages to workers to motivate them.
PRODUCTIVITY = OUTPUT/ QUANTITY OF INPUT.
LABOUR PRODUCTIVITY = OUTPUT OVER A GIVEN PERIOD OF TIME/ NUMBER OF EMPLOYEES.

Businesses hold inventory of finished products and raw materials as a backup for unexpected events. Buffer inventories are the inventories that help to deal with uncertainty in customer demand and delivery of supplies.



Lean production:
Lean production is a term for those techniques used by businesses to cut down on waste and therefore increase efficiency and cut costs. It reduces storage costs, leads to faster production, fewer defects, and reduces risk of injury. Lean production can be used in the forms of Kaizen, just-in-time production, and cell production.

Types of waste that could occur are overproduction, waiting for production delays, transportation, unnecessary inventory, use of complex machinery for simple tasks, and product defects.
Kaizen is a Japanese term meaning continuous improvement through the elimination of waste. Workers group to make continuous improvements to the production process to increase efficiency.
Just-in- time production involves reducing or virtually eliminating the need to hold raw materials unsold inventory. Raw materials arrive just in time for production to begin thus eliminating the storage cost. However, if there are transportation delays, production will have to stop entirely.
Cell production is where production is divided into individual units that pass through in batches. It is good for FMCG products however one defect can ruin the entire unit which increases waste.

Methods of production:
Job production is where a single product is made at a time. It is usually used in customisation and thus there is no monotony for the worker. However, skilled labour is expensive, production takes time, and thus has high costs.
Batch production is where a quantity of one product is made at once and then a quantity of another. Usually used in bakeries. It is flexible, provides variety, and can change based on customer demands. However, it can be expensive, machines differ, and warehouse space is required.
Flow production is where large quantities of a product are produced continuously. Usually for FMCG products. It is capital intensive thus efficient, benefits from economies of scale, low average costs, completely automated, and saves time. However, there is little job satisfaction, storage costs are high and machines require maintenance.

Computer aided design or CAD is a computer software that draws items and allows users to make changes and restyle accordingly.
Computer aided manufacturing or CAM is where computers monitor and control the production process with limited human interference.
Computer integrated manufacturing is where the computer designs and manufactures the product as the systems are linked together.

Productivity with new tech is higher, products are better in quality, costs are reduced, communication is quicker and skilled workers are hired. However, unemployment has risen, purchasing and maintaining machinery is expensive, and employees have limited job satisfaction.

Chapter 19: Costs, scale of production and break-even analysis

Business costs are divided into fixed and variable costs. Fixed costs are those that don't vary in the short term or based on sales/ production. Variable costs are dependent on products sold or produced.

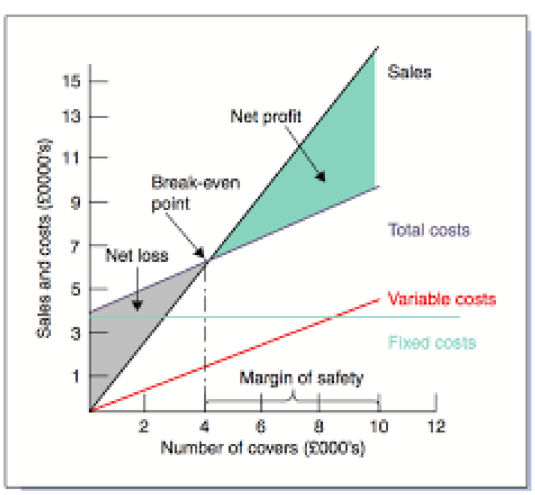
AVERAGE COST OF PRODUCTION = TOTAL PRODUCTION COSTS (IN TIME PERIOD)/ TOTAL OUTPUT (IN TIME PERIOD)

Economies of scale are the factors that lead to a reduction in average costs as a business increases in size.

1. Purchasing economies: Buying in bulk offers discounts which provides an advantage as the cost per unit is much lower.
2. Marketing economies: Big firms can buy vehicles for transportation to cut costs, advertisement costs are lower and the number of staff to complete a task remains the same for a big or small company thus big companies reduce costs on hiring.
3. Financial economies: Larger businesses can raise finance cheaper than smaller ones as they are given lower interest rates and are more likely to get loans as they are less of a risk for banks.
4. Managerial economies: Larger companies can afford higher qualified individuals which increases efficiency and reduces average costs.
5. Technical economies: Large companies that need to produce in bulk can use machinery and large transport to cut costs.

Diseconomies of scale are factors that lead to an increase in average costs as a business grows beyond a certain size.

1. Poor communication: Slow or inaccurate communication can lead to mistakes that increase average costs.
2. Lack of commitment from employees: If workers feel unmotivated, work will not be efficient and will increase average costs.
3. Weak coordination: If managers don't coordinate effectively between large organisations, efficiency decreases and costs increase.



Break-even level of output is the quantity that must be produced and sold for the total revenue to equal the total costs.

To draw a breakeven chart, draw a table with the costs of a business and the sales being made per unit starting with 0. Then convert this into a graph with the x axis being the units of production and the y axis representing the costs and revenue. The point at which the revenue and total costs lines meet is the breakeven point.

The margin of safety is the amount by which sales exceed the break-even point to ensure a safe amount of profit has been made.
The managers are able to use these graphs to determine the expected profit or loss at every level of output, and the impact of decisions made by the business can be shown by redrawing the graph. However, they are constructed with the assumption that all products will be sold, no products will be damaged and costs will remain constant.

BREAK-EVEN LEVEL OF PRODUCTION = TOTAL FIXED COSTS/ CONTRIBUTION PER UNIT
CONTRIBUTION = SELLING PRICE - VARIABLE COST

Chapter 20: Achieving quality production

Quality helps establish a brand, build loyalty, maintain reputations, increase sales and attract customers. Quality means a business is producing a good or service that meets customer expectations.
Quality control is checking for quality at the end of the production line. It eliminates errors before customers receive products and less training is required, but costs are to waste the product, inspectors are expensive and it doesn't identify the stage of production at which the mistake occurred.
Quality assurance is checking for quality throughout the production process. It eliminates errors, there are fewer customer complaints, and costs are lower on wasted products but training employees is expensive and they would have to be committed.
Total quality management or TQM is the continuous improvement of products and processes by focusing on quality at every stage of production. This way quality is built into every stage, mistakes can be identified, all faults are eliminated, and waste is removed but it is expensive to train employees and it relies on all employees accepting responsibility.

Chapter 21: Location decisions

Location of a manufacturing business:

1. Production methods: If it's job production, it'll be small scale. If it is flow production a large factory is needed.
2. Market: If it is perishable, it has to be near where it is sold so it can be transported easily. It is also heavier than the empty packaging to transport.
3. Raw materials: It is heavy to transport raw materials.
4. External economies of scale: Service for machines should be nearby.
5. Availability of labour: Should be near the factory so transportation is easy.

6. Government influence: Might shift them to places of high unemployment in exchange for grants.
7. Transport and communications: Available transport and internet to communicate.
8. Power and water supply: Can't be in a place with regular power cuts.

Location of a service sector business:

1. Customers: Needs to be accessible to customers for the service.
2. Personal preference of the owners: Near where they live/ in a neighbourhood they know well
3. Technology: Can provide service over the internet or the phone
4. Availability of labour: may have to locate where skilled labour is available.
5. Climate: for hotels, tourism
6. Near other businesses: in case they serve other businesses
7. Rent/taxes: lower rent/taxes would cut costs

Location of a retailing business:

1. Customers: in a popular area like a mall
2. Nearby shops: Near other places visited regularly like a fast food restaurant
3. Customer parking: for ease
4. Availability of suitable vacant premises
5. Rent/ taxes
6. Access for delivery vehicles
7. Security
8. Legislation: laws restricting trade

Depending on the country:

1. New market overseas
2. Cheaper or new sources of materials
3. Difficulties with the labour force and wage costs
4. Rent and tax
5. Availability of government grants
6. Trade and tariff barriers aka tax on imported goods.

Chapter 22: Business finance- needs and sources

Finance departments are responsible for all financial transactions, preparing final accounts, producing accounting information for supervisors, forecasting cash flows and making important financial decisions like allocating funds gained from sources of finance.

Businesses may need finance to start up a business, expand a business or to raise additional working capital. Finance is money required or possessed by a business.

Finance required to start up a business, often known as startup capital, is required to purchase fixed assets such as land, equipment, etc. depending on the business. Additionally, it is required to purchase current assets such as raw materials.

Finance required to expand a business would include capital required to purchase more fixed assets, another business in a takeover, or research and development of new products.

Working capital is the finance needed by a business to pay its day to day costs. These would include wages, raw materials, electricity bills, etc. It is important for the business to have sufficient working capital, since even profitable businesses could go bankrupt without it.

Finance required to raise additional working capital to use for either capital expenditure or revenue expenditure. Capital expenditure is the money spent on fixed assets required to start and expand a business. Revenue expenditure is the money spent on day to day expenses as working capital.

Fixed assets are those that will last for one year or longer. Current assets are those that will last for less than a year.

Sources of internal finance:

Internal finance is obtained from within a business itself.

1. Retained profit or ploughed back profit: This is the profit kept by the business after owners have taken their share. It does not have to be repaid and there is no interest, however small or new businesses don’t usually have retained profits or may not have enough, and owners may not receive enough money for themselves if profits are being retained for the business.
2. Sale of existing assets: The business sells unnecessary assets for a profit. This makes better use of capital tied up in the business and does not increase business debts, however, it may take time to sell the assets and the amount received may not be enough.
3. Sale of inventories to reduce inventory levels: The sale of unsold goods at a lower price or running down stock. This reduces the opportunity cost and storage cost of high inventory levels, however, it must be done carefully so customers are not disappointed at poor quality or low numbers of items.
4. Owner’s savings: Usually used by an unincorporated business, owners invest their own savings into a business and since these businesses don't have separate legal identities from their owners, it counts as an internal source of finance. It is available for use

quickly and no interest is required, however, savings may be low and it may increase the risk for the owners since they have unlimited liability.

Sources of external finance:

Finance obtained from outside the business.

1. Issue of shares: This is only possible for limited companies. It is a permanent source of capital that doesn't have to be repaid and doesn't require interest, however, dividends are paid after tax while tax is deducted in loans. Additionally, dividends will be expected and ownership may change if another person purchases the majority shares.
2. Bank loans: A bank loan is a sum of money lent by a bank which must be repaid with interest. They are usually quick to arrange and can be for varying lengths of time. Large companies may be offered lower interest rates for large sums of money. However, a bank loan has to be repaid with interest, which is a constant outflow of money for the business. And collateral is usually required in case they are unable to repay the loan.
3. Selling debentures: They are long term loan certificates issued by limited companies. They can be used to raise long term finance, for example, 25 years. However, they must be repaid with interest.
4. Factoring of debts: A debtor is a customer who owes a business money for purchasing on credit. They may take the help of debt factors who repay the money to the business on behalf of the debtors at 90% and wait until the debtor is able to repay the full 100% to the debt factors. Like this, they make a 10% profit. This is immediate cash for the business since the debt factor has repaid most of the money and the risk of collecting debt from the debtor now belongs to the debt factor. However, the business doesn't get a full 100% of their money.
5. Grants and subsidies from the government: These do not have to be repaid, but they are given with conditions like preferences in location or land.

Alternative sources of capital:
1. Microfinance is providing financial services like small bank loans to poor people not served by traditional banks. The banks may not lend since it may not make a profit and can't take collateral. Microfinance facilitates economic growth and is service based, thus not subsidised by the government and not profit driven
2. Crowdfunding is funding a project or venture by raising money from a large number of people who each contribute a relatively small amount, typically via the internet. No initial fees are required and it lets the business test its new venture with the public. It can also be a fast way to gain substantial funds and is a good option when traditional methods are unavailable. However, a percentage of the money collected is often given to the website used, and the entrepreneur's proposal may be rejected if not well executed. Media and publicity need to be raised so people will donate, which takes time and money, and competitors may steal and execute the new ideas.

Short term finance:

This provides working capital required for day to day expenditure.

1. Overdrafts: A bank lets a customer overdraw and take more money than they have in their accounts, which will be repaid on interest only on the amount overdrawn. They are cheaper than short term loans and are flexible since they vary every month. However, interest rates are variable and a bank can ask for it to be repaid on short notice.
2. Trade credit: When a business delays paying its suppliers to improve the business's cash position. It is almost interest-free however, it may damage the relationship with the supplier.
3. Factoring of debts

Long term finance:
This is for finance available to the business for more than a year.

1. Bank loans
2. Hire purchase: This lets a business buy fixed assets with monthly payments and interest. They don't need to pay a large cash sum up front however a cash deposit is paid and the interest can be high.
3. Leasing: A business can lease machinery or other assets instead of purchasing them. It doesn't need to pay a large cash sum and care and maintenance is taken care of by the leasing company. However, the total cost of leasing will be higher than purchasing.
4. Issue of shares
5. Long term loans or debt finance
6. Debentures

Loan interest is paid before tax and is paid every year, but dividends don't have to be paid if the business has made a loss. Loans must be repaid since they aren't permanent capital like shares and are often secured with collateral.

The choice of which source of finance the business has to use should be made based on the purpose, time period, amount required, legal requirements and size, control.

Chapter 23: Cash flow forecasting and working capital

Cash is a liquid asset. This means it is available for immediate spending. The cash flow of a business is the cash inflows and outflows over a period of time.

If a business is low on or runs out of cash, it won't be able to pay workers, produce goods, and may be forced to liquidate its assets.

Cash inflows are the sums of money received by a business during a period of time. Cash inflows are the sums of money paid out by a business during a period of time.

The cash flow cycle shows the stages between paying out cash for labour, materials, etc. and receiving cash from sale of goods.
Cash needed to pay for → wages, materials, rent, etc → goods produced → goods sold → cash payment received for sold goods. The greater the time taken to complete these stages, the higher the business's need for working capital will be.

Profit is the surplus after total costs have been subtracted from revenue.

Profitable businesses can run out of cash if they have too many items sold on credit, they have purchased too many fixed assets or if they have expanded too quickly and are keeping a high inventory level.

A cash flow forecast is an estimate of future cash inflows and outflows of a business, usually on a month by month basis. This then shows the expected cash balance at the end of each month. It is important to find out how much cash is available for paying bills, how much the bank may need to lend, whether the business is holding too much cash that could be used better.

Net cash flow is the difference between inflows and outflows each month. Closing bank balance is the amount of cash held by the business at the end of each month. Opening bank balance is the amount of cash held by the business at the beginning of each month.

Cash flow forecasts can be used in starting up a business, to know how much is required since many new purchases have to be made, in keeping the bank manager informed, so they can make decisions for future loans for the business, in managing an existing business, so they can plan in advance in the event they run out of cash. And finally in managing cash flow, so they can decide how to use their money in a more profitable way.

Short term cash flow problems can be overcome by increasing bank loans, delaying payment to suppliers, asking debtors to pay faster or insisting on only cash sales, or to delay and cancel purchases of capital equipment.

Long term solutions would include attracting new investors, cutting costs and increasing efficiency, and developing new products.

Working capital is the capital available to a business in the short term to pay for day to day expenses. This may be held as cash, as the value of the debtors and the value of inventories.

Chapter 24: Income statements

Accounts are the financial records of a firm's transactions.

They are controlled and kept by accountants, who are professionally qualified people that have the responsibility of keeping and producing accounts.
Final accounts are accounts produced at the end of the financial year that give the details of the profits and losses made over the year as well as the worth of the business. Final accounts are made up of balance sheets and income statements.

PROFIT = REVENUE - COGS/ COST OF MAKING PRODUCTS

Profit is the surplus that remains after the businesses costs have been subtracted. If the cost of goods sold is higher than the sales revenue, the business makes a loss.

The cost of goods sold only accounts for the money spent on the goods that have been sold and unsold goods are held as working capital under inventory.

Profit is important to private sector businesses. It is a reward for enterprise to the entrepreneurs for their work. It is a reward for risk taking for business owners and investors that have put their capital into the business and motivate them to do so further. It is a source of finance since retained profits can be ploughed back into the business. Finally, it is an indicator of success to judge how profitable a business is and if it is worth entering the industry.

Income statements are financial records that show the income of a business and all costs incurred to earn that income over a period of time. It is also known as a profit and loss account.

SALES REVENUE = PRICE X AMOUNT SOLD

GROSS PROFIT = REVENUE - COGS

Particulars	Amount
Trading account:	
Sales revenue	XX
(-) Cost of goods sold	(XX)
Non trading income	XX
GROSS PROFIT	XXX
Profit and loss account:	
Expenses:	
Wages and salaries	XX
Depreciation	XX

Rent	XX
Total expenses	XXX
NET PROFIT (GP - Expenses)	XXX
Corporation tax	XX
NET PROFIT AFTER TAX	XXX
Dividends	XX
RETAINED PROFIT	XXX

Other businesses would compare their accounts to measure their success.

Chapter 25: Statement of financial position

The statement of financial position shows the value of the business's assets and liabilities at a particular time.
Assets are those items of value that are owned by the business. They may be non-current or fixed assets, or current assets.
Liabilities are debts owed by the business. They may be non-current or fixed liabilities or current liabilities. Non currents are over the limit of a year for the long term and currents are under one year.

WORKING CAPITAL = CURRENT ASSETS - CURRENT LIABILITIES
CAPITAL EMPLOYED = SHAREHOLDERS FUNDS + NON-CURRENT LIABILITIES

Chapter 26: Analysis of accounts

By analysing accounts, a business can perform better than previous years and its competitors.

Profitability is the measurement of profit made relative to either the value of sales achieved or the capital invested in the business. Profitability ratios are mentioned below.

ROCE= NET PROFIT/ CAPITAL EMPLOYED x 100
ROCE- Return on capital employed

GROSS PROFIT MARGIN= GROSS PROFIT/ REVENUE x 100

NET PROFIT MARGIN = NET PROFIT/ REVENUE x100

Liquidity is the ability of a business to pay back its short term debts. Liquidity ratios are mentioned below.

CURRENT RATIO = CURRENT ASSETS/ CURRENT LIABILITIES x 100

ACID TEST RATIO = CURRENT ASSETS - INVENTORIES/ CURRENT LIABILITIES x 100

Managers use accounts to make decisions and assess how departments of the business are performing. Accounting ratios would help them compare the company's profit performance with previous years or other businesses.

Shareholders can use accounts to assess how profitable the business is and whether they should invest.

Creditors need to know if the business would be able to pay them back if they supplied goods on credit.

Banks, similarly to creditors, would use accounts to assess whether the business should get loans, etc. and if they would be able to pay them back.

The government would need to check the profit tax paid by the company and see if the numbers are correctly adding up to avoid evasion. If the company is doing poorly, it may affect the economy as well and workers will lose their jobs.

Workers and trade unions need to assess their job security with the company and see if they are being paid fairly with the profit the business is making.

Chapter 27: Economic issues

Gross Domestic Product is the total value of output of goods and services produced by a country in one year.
In the business cycle, there are 4 stages of the economy. The "growth" stage is when GDP is rising, unemployment is falling, living standards are high and inflation is low. The "boom" stage is when overspending occurs and overall costs and prices begin to rise. The "recession" stage is when the GDP falls and people stop spending money, thus businesses shut down and unemployment increases. The "slump" stage is when there is a very serious and long recession and it is very difficult to recover from.
Governments prefer to avoid booms, recessions and slumps since high inflation and high costs are what lead to recessions.
Inflation is the increase in the average price level of goods and services over time. Governments prefer low inflation so prices stay low. Inflation means workers wages won't be able to afford the same food and rent and businesses are unlikely to survive let alone hire new workers.

Unemployment is when people who are willing and able to work cannot find jobs.
Unemployment means the overall goods being produced are low and the government has to provide these individuals with benefits like food stamps.
Economic growth is when a country's GDP increases. Output falls and the average standard of living goes down as the demand decreases.
The balance of payments is when the country's exports and imports are equal. If a country is spending more on imports than it exports, it leads to the country bleeding out money with not enough income.

Chapter 28: Environmental and ethical issues

Social responsibility is when a business decision benefits stakeholder other than shareholders, like the public.
A pressure group is made up of people who to change business decisions by taking action, such as organising customer boycotts.
Of worrying about the environment:

PROS	CONS
It is expensive and reduces	Affects everyone, therefore their responsibility as well
Must increase prices for "environmentally friendly" policies	Using scarce resources leaves less for the future
Could make firms uncompetitive and lose sales to other businesses that aren't green	Scientists confirm business activity's role in destroying the environment
Fewer sales with higher prices	Customers more socially aware- more likely buy from an eco-friendly business
Government responsibility, not theirs	Risk action from pressure groups if not eco-friendly

Private costs of an activity are the costs paid for by a business of the consumer of the product.
Private benefits of an activity are the gains to a business or the consumer of the product.
External costs are costs paid for by the rest of society because of business activity.
External benefits are the gains to the rest of society as a result of business activity.
SOCIAL COST = EXTERNAL COSTS + PRIVATE COSTS
SOCIAL BENEFIT = EXTERNAL BENEFITS + PRIVATE BENEFITS

Sustainable development is development which does not put living standard of future generations at risk. A business can use renewable energy, recycle waste, use fewer resources and develop new eco-friendly products and production methods to sustainably develop.

Why do businesses respond to economic pressure and opportunities?

- Consumers- It is bad publicity and leads to fewer sales.
- Pressure groups- they are powerful enough to turn away audiences and cause legal involvement.
- Legality- governments often make certain harmful business activities illegal
- Fines- governments impose fines if businesses pollute over their licensed limit

Ethical decisions are what businesses should or shouldn't do based on moral code.
Benefits of taking ethical decisions: customers are more likely to buy products, good publicity, long term profits could increase, attracts workers and investors and lowered risks of legal action.
Losses of taking ethical decisions: higher average costs, higher selling prices, unattractive to consumers that don't have the luxury to care, and short term profits may fall.

Chapter 29: Business and the international economy

Globalisation is used to describe increases in worldwide trade and movement of people and capital between countries. It is caused by increasing numbers of free trade agreements. Improved and cheaper travel links and communications, and emerging market countries
Free trade agreements are when countries agree to trade imports and exports with no barriers such as tariffs and quotas.

Opportunities for businesses:

1. Opening foreign markets- increases potential sales but can be expensive to sell abroad.
2. Opening factories in other countries- could be cheaper to produce products, but the quality may not be as good.
3. Import products from other countries to sell in the 'home' country- importing is more profitable since there are no trade restrictions, but products need maintenance which may not be available in the foreign country.
4. Import materials and components from other countries to produce final goods in 'home' countries- could be cheaper, but suppliers may not be reliable and distance adds external costs.

Threats to the business:

1. Increasing imports into home markets from foreign competitors- sales may fall if competitors offer cheaper products, but increased competition could lead to increased efficiency through motivation to do better.
2. Increased investment to set up operations- further competition since multinationals benefit from economies of scale and can afford the best employees, but local firms could become suppliers to these multinationals and sales could increase
3. Employees may switch to the larger international businesses that pay more- businesses will have to make efforts to keep their employees, but local businesses would be more encouraged to use motivation methods on their employees.

An import tariff is a tax placed on imported goods when they arrive into the country.
An import quota is a restriction on the quantity that can be imported.
Protectionism is when a government protects domestic businesses from foreign competition using tariffs and quotas.
Tariffs and quotas ensure the safety of domestic industries from international companies, but buying imported goods may be better for local businesses as well since they are cheaper which would increase living standards with higher incomes.

Multinational/ transnational businesses are those with factories, production, or service operations in more than one country.
Benefits to a business of becoming multinational and the impact on stakeholders:

1. Wage rates and costs are lower in other countries.
2. Can extract raw material.
3. Producing goods near market reduces transport costs
4. Avoids trade barriers on imports
5. Increased market share and expansion to a new market
6. Remain competitive
7. Gain government grants given to businesses to set up operations in certain countries

The impact on its stakeholders of a business becoming multinational:

1. Shareholders receive higher dividends from higher profits.
2. Employees have more opportunity for promotion.
3. Suppliers may have increased or decreased sales depending on where the multinational operated from and where its located.
4. Governments gain higher tax revenue if profits from operations abroad are repatriated but may lose tax revenue if the head office is relocated elsewhere.

Potential benefits to a country's economy where a multinational operates:

1. Jobs are created, reduces unemployment.
2. Increased investment- building, machinery, increases output, new tech.
3. Increased exports- helps balance GDP.
4. Multinationals pay taxes.
5. Increased consumer choice, more competition

Potential drawbacks to a country's economy where a multinational operates:

1. Jobs created are often unskilled and laborious.
2. Reduces sales for local businesses.
3. Repatriation of profits- profits are sent to the home country.
4. Use more non-renewable and scarce resources.
5. Can influence the government and economy for large grants.

Exchange rate is the price of one currency in terms of another.
Depreciation is when one currency buys less of another. Makes exports cheaper and imports become more expensive.
Appreciation is when one currency buys more of another. Makes exports more expensive and imports become cheaper.